## February 2015

As the new year gets underway, more central banks have joined in the monetary policy easing spree. Since the start of 2015, there have been more than 20 central banks cutting interest rates in both developed and emerging markets. The Bank of Thailand was the latest central bank to attempt to stimulate its country's economy by lowering its policy rate by 0.25% to 1.75%.

Benign inflation caused by declining oil prices has partly allowed for this global easing bias. However, bucking the trend more recently, is Brazil (hiking rates by 0.5% to 12.75%) and Ukraine (raising rates by 10.5% to 30%!). Both countries raised their policy rates in an effort to curb spiralling inflation and plunging currencies.

Stronger than expected US non-farm payroll data for February indicated that the US economy is continuing to improve. February saw an addition of 295,000 jobs and unemployment falling from 5.7% to 5.5% for the US. Despite the robust labour market, investors reacted negatively to the news with US equities falling post the announcement. This was not unexpected because the strong payroll data pushed forward the market's expectations for the first policy rate hike by the US Federal Reserve, making investors jittery.

Additionally, the US manufacturing purchasing manager index (PMI) improved in February with a reading of 55.1 compared to 53.9 last month. This is the first uptick in US PMI since August last year.

In Europe, there were early signs of improvement as German and Euro-zone unemployment rates fell. In addition, leading indicators for Germany such as the IFO and ZEW surveys (which measures market expectations) have both been increasing over the past several months.

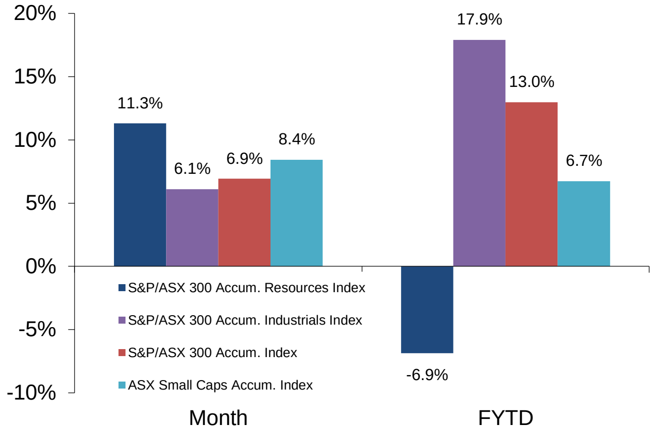
For the peripheral countries, Greece received an extension on its financial aid from its European counterparts in exchange for a series of Greek government reforms. The debt extension was for four months. It is important to keep in mind that the European Central Bank's (ECB) quantitative easing programme has commenced in March.

Since lowering its reserve requirement ratio for banks last month, the People's Bank of China (PBoC) have eased again this month. The PBoC lowered its 1-year lending and deposit rates by 0.25% to 5.35% and 2.5% respectively. This follows a lowering of China's growth target by its government from 7.5% to 7.0%. The Chinese manufacturing PMI remains below the 50 level threshold at 49.9 (a reading below 50 denotes manufacturing activity is contracting), albeit it improved slightly from a 49.8 reading from last month.

Locally, despite a large fall in new capital expenditure over the last quarter of 2014, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.25% at its March meeting after lowering it at its previous meeting. However, the RBA did specify its easing bias in their statement on monetary policy, a change from their stable interest rate view. The statement also highlighted Sydney dwelling prices as a key risk that the RBA is monitoring. Statements on the Australian dollar remaining above its fundamental value despite declining in recent months were also retained.

In terms of the domestic labour market, the unemployment rate improved over the month, falling from 6.4% to 6.3%. The increase in employment was majority driven by increases in full time jobs.

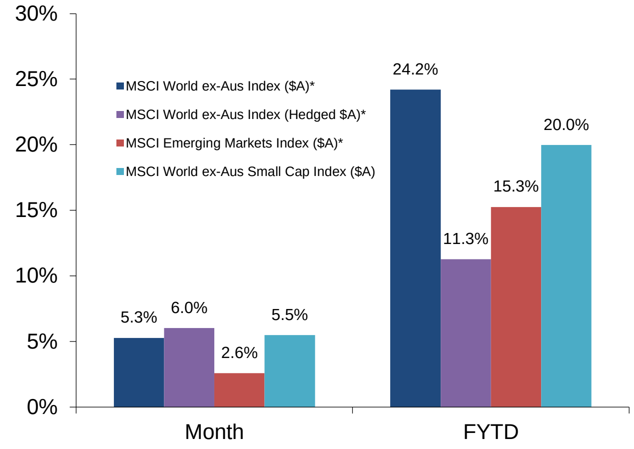
## Australian equities




Australian equities continued its strong run for 2015, rising by 6.9% for the month of February. This was largely driven by the Resources sector.

In terms of sectors, Materials (+12.6%) was the best performing sector over the month while Telecommunications (-1.3%) was the worst performer.

## International equities ($A)

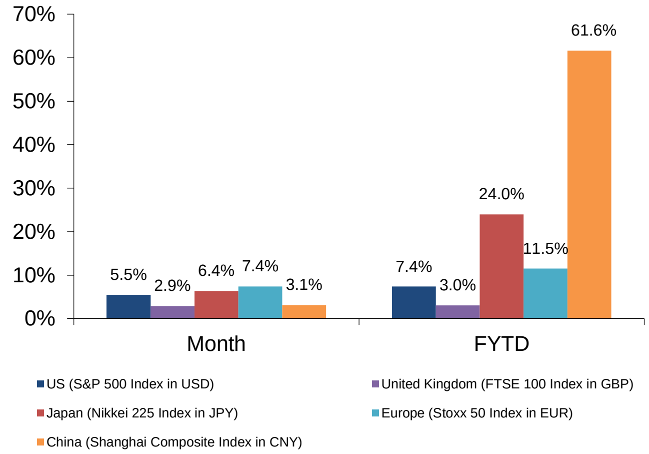



Although both were positive, hedged developed market equities outperformed its unhedged counterpart over the month. This was partly driven by the Australian dollar appreciating against the Japanese Yen and Euro.

For developed markets, the US was the main contributor to the positive performance with Japan also making a positive contribution.

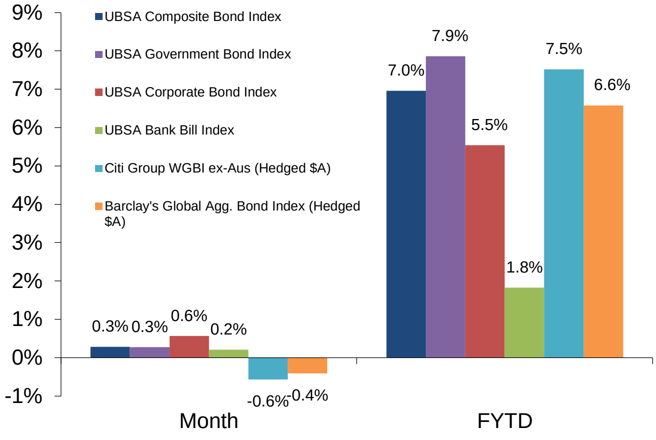
For emerging markets, Russian equities was the key contributor along with Chinese equities.

## International equities (local currencies)




Offshore equity markets in local currency terms posted positive returns in February. European equities performed best on the back of the ECB's "expanded asset purchase programme".

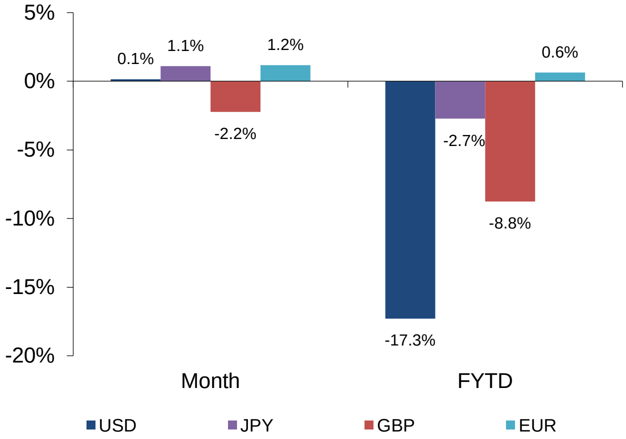
## Fixed income




Although Australian fixed interest was relatively flat over the month, international fixed interest recorded a slight negative return. This was partly driven by rising US and UK sovereign yields on the longer term bonds (bear steepening) as market expectations on rate rises in both countries grows.

Australian sovereign yields fell broadly across the curve in February on the back of the rate cut by the RBA in early February.

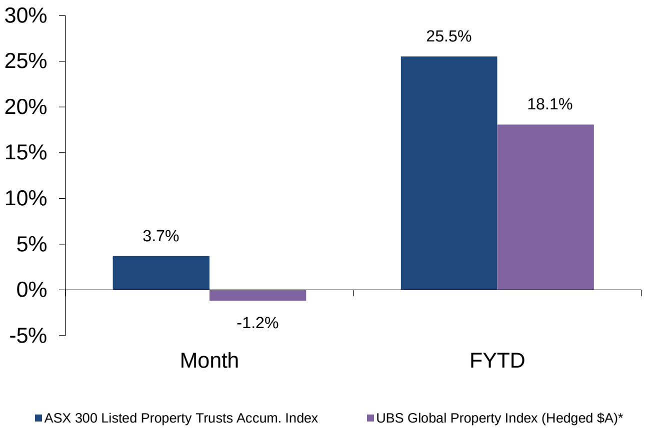
## Australian dollar against major currencies




The Australian dollar (AUD) was relatively unchanged against the US dollar over the month.

Against the other major currencies, the AUD depreciated against the British Pound but appreciated against the Japanese Yen and Euro – likely driven by each country’s respective monetary policies.

## Property




Australian listed property outperformed its hedged international counterpart in February. This was likely due to the easing of financial conditions locally (lower AUD and interest rates).

| 28-Feb-15 | Index value | Month | 3 months | FYTD | 1 year |
|---|---|---|---|---|---|
| **Australian equities** | | | | | |
| S&P/ASX 300 Accum. Index | 51,239 | 6.9% | 12.6% | 13.0% | 14.2% |
| S&P/ASX 300 Accum. Industrials Index | 104,152 | 6.1% | 13.8% | 17.9% | 20.6% |
| S&P/ASX 300 Accum. Resources Index | 19,962 | 11.3% | 7.1% | -6.9% | -10.2% |
| ASX Small Caps Accum. Index | 5,687 | 8.4% | 9.9% | 6.7% | 3.1% |
| **International equities** | | | | | |
| MSCI World ex-Aus Index ($A)* | 6,776 | 5.3% | 11.5% | 24.2% | 23.6% |
| MSCI World ex-Aus Index (Hedged $A)* | 1,256 | 6.0% | 4.8% | 11.3% | 17.4% |
| MSCI Emerging Markets Index ($A)* | 532 | 2.6% | 7.9% | 15.3% | 20.1% |
| MSCI World ex-Aus Small Cap Index ($A) | 428 | 5.5% | 14.1% | 20.0% | 16.2% |
| US (S&P 500 Index in USD) | 2,105 | 5.5% | 1.8% | 7.4% | 13.2% |
| United Kingdom (FTSE 100 Index in GBP) | 6,947 | 2.9% | 3.3% | 3.0% | 2.0% |
| Japan (Nikkei 225 Index in JPY) | 18,798 | 6.4% | 7.7% | 24.0% | 26.7% |
| Europe (Stoxx 50 Index in EUR) | 3,599 | 7.4% | 10.7% | 11.5% | 14.3% |
| China (Shanghai Composite Index in CNY) | 3,310 | 3.1% | 23.4% | 61.6% | 61.0% |
| **AUD versus …** | | | | | |
| USD | 0.78 | 0.1% | -8.2% | -17.3% | -12.9% |
| JPY | 92.83 | 1.1% | -7.6% | -2.7% | 2.1% |
| GBP | 0.50 | -2.2% | -6.6% | -8.8% | -5.9% |
| EUR | 0.70 | 1.2% | 1.9% | 0.6% | 6.4% |
| **Property** | | | | | |
| ASX 300 Listed Property Trusts Accum. Index | 37,977 | 3.7% | 16.4% | 25.5% | 34.9% |
| UBS Global Property Index (Hedged $A)* | 2,211 | -1.2% | 8.2% | 18.1% | 27.4% |
| **Australian Fixed Interest** | | | | | |
| UBSA Composite Bond Index | 8,503 | 0.3% | 3.6% | 7.0% | 10.3% |
| UBSA Government Bond Index | 8,910 | 0.3% | 4.0% | 7.9% | 11.2% |
| UBSA Corporate Bond Index | 8,573 | 0.6% | 2.9% | 5.5% | 8.3% |
| UBSA Bank Bill Index | 8,212 | 0.2% | 0.7% | 1.8% | 2.7% |
| **Global Fixed Interest** | | | | | |
| Citi Group WGBI ex-Aus (Hedged $A) | - | -0.6% | 2.9% | 7.5% | 10.6% |
| Barclay's Global Agg. Bond Index (Hedged $A) | - | -0.4% | 2.5% | 6.6% | 9.7% |
| **Oil and Commodities** | | | | | |
| Crude Oil ($/bbl) | 50 | 3.2% | -24.8% | -52.8% | -51.5% |
| Copper Spot ($/tonne) | 5,924 | 6.9% | -7.6% | -15.9% | -16.3% |
| Gold Spot ($/ounce) | 1,213 | -5.2% | 3.2% | -8.3% | -8.4% |

| **Fixed income (yields) as at …** | **28-Feb-15** | **31-Jan-15** | **30-Nov-14** | **30-Jun-14** | **28-Feb-14** |
|---|---|---|---|---|---|
| Australia Bank Bill | 2.32 | 2.53 | 2.74 | 2.68 | 2.62 |
| Australia 10 Year Government Bond | 2.46 | 2.44 | 3.03 | 3.54 | 4.02 |
| US 10 Year Government Bond | 1.99 | 1.64 | 2.16 | 2.53 | 2.65 |
| UK 10 Year Government Bond | 1.80 | 1.33 | 1.93 | 2.67 | 2.72 |
| Germany 10 Year Government Bond | 0.33 | 0.30 | 0.70 | 1.25 | 1.62 |
| Japan 10 Year Government Bond | 0.34 | 0.28 | 0.42 | 0.57 | 0.59 |

* Net dividends reinvested